

ECONOMIC NEWS

United States: A Strong Finish to 2021

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HIGHLIGHTS

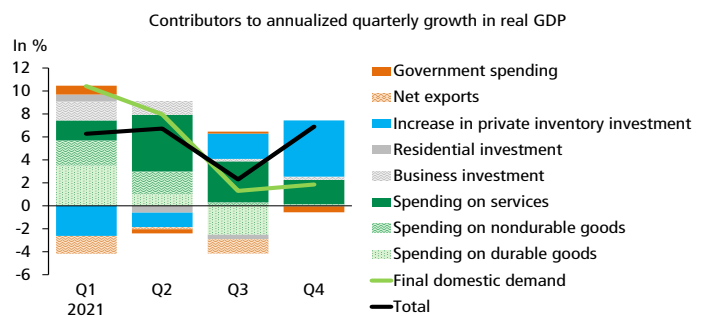
- ▶ According to the advance estimate released by the U.S. Bureau of Economic Analysis, real GDP increased at an annualized rate of 6.9% in the fourth quarter of 2021. This came on the heels of annualized gains of 2.3% in the third quarter and 6.7% in the second quarter. Real GDP is now 3.1% higher than it was at the end of 2019.
- ▶ For the year, real GDP was up 5.7% after falling 3.4% in 2020—the biggest annual increase since 1984.
- ▶ Real spending rose at an annualized rate of 3.3% in the fourth quarter. Spending was up 1.6% on durable goods but down 0.1% on nondurable goods. Spending on services increased 4.7% on an annualized basis.
- ▶ Nonresidential fixed investment by business grew 2.0%, while nonresidential construction tumbled 11.4%. Investment in equipment posted a modest 0.8% gain after falling 2.3% in the third quarter. Investment in intellectual property products spiked 10.6%. Residential investment declined 0.8%.
- ▶ The change in business inventory rose from -US\$66.8B to +US\$173.5B, adding a whopping 4.9 percentage points to real GDP growth.
- ▶ The contribution from international trade was flat. Both real exports (+24.5%) and real imports (+17.7%) were up sharply in the fourth quarter.
- ▶ Government spending was down 2.9%.

COMMENTS

After a somewhat disappointing third quarter, real GDP growth rebounded in the final three months of the year. Today's reading was much better than the 5.5% annualized gain analysts had expected, especially given December's weak consumer spending. But final domestic demand was up just 1.9%, not much better than its 1.3% third quarter gain. A large part of goods produced

GRAPH

Fourth quarter growth was driven by private inventory investment



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

went to manufacturer, wholesaler and retailer inventories. Given current supply chain shortages, higher inventories are probably a good thing. But this kind of GDP growth is unlikely to continue, and business inventory investment isn't expected to be such a major contributor over the coming quarters.

Real GDP is now well above its pre-pandemic level, though many sectors are still recovering. Consumption of services remains strong, while that of goods is slowing. Government spending is also down. Residential investment has been falling for the past three quarters after surging in 2020.

IMPLICATIONS

2021 was a rebound year. We expect increasingly "normal" growth from here on out despite the ongoing pandemic. We also foresee the U.S. economy easily absorbing the Federal Reserve's upcoming rate hikes.